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Macroeconomic policy questions: external debt sustainability and development

Draft resolution submitted by the Vice-Chair of the Committee, Mr. Stefano Stefanile (Italy), on the basis of informal consultations on draft resolution A/C.2/67/L.28

External debt sustainability and development

The General Assembly,

Recalling its resolutions 58/203 of 23 December 2003, 59/223 of 22 December 2004, 60/187 of 22 December 2005, 61/188 of 20 December 2006, 62/186 of 19 December 2007, 63/206 of 19 December 2008, 64/191 of 21 December 2009, 65/144 of 20 December 2010, and 66/189 of 22 December 2011,

Recalling also the United Nations Millennium Declaration,[1] adopted on 8 September 2000, and the High-level Plenary Meeting of the General Assembly on the Millennium Development Goals and its outcome document,[2]

Recalling further the 2005 World Summit Outcome,[3]

Recalling the International Conference on Financing for Development and its outcome document[4] and the Doha Declaration on Financing for Development: outcome document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus,[5]

Recalling also the Conference on the World Financial and Economic Crisis and Its Impact on Development and its outcome document,[6]

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[1] Resolution 55/2.
[2] Resolution 65/1.
[3] Resolution 60/1.
[4] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.
[5] Resolution 63/239, annex.
[6] Resolution 63/303, annex.

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Recalling further the Fourth United Nations Conference on the Least Developed Countries and the Istanbul Declaration and the Programme of Action for the Least Developed Countries for the Decade 2011-2020,[7]

Recalling the United Nations Conference on Sustainable Development, held in Rio de Janeiro, Brazil, from 20 to 22 June 2012, and its outcome document, entitled "The future we want",[8]

Recalling also its resolution 57/270 B of 23 June 2003 on the integrated and coordinated implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic and social fields,

Recalling further its resolution 60/265 of 30 June 2006 on the follow-up to the development outcome of the 2005 World Summit, including the Millennium Development Goals and the other internationally agreed development goals,

Taking note with appreciation of the special event of the Second Committee held on the theme "Sovereign debt crises and restructurings: lessons learned and proposals for debt resolution mechanisms",[9]

Emphasizing that debt sustainability is essential for underpinning growth, underlining the importance of debt sustainability and effective debt management to the efforts to achieve national and international development goals, including the Millennium Development Goals, and acknowledging that debt crises tend to be costly and disruptive, including for employment and productive investment, and tend to be followed by cuts in public spending, including on health and education, affecting in particular the poor and vulnerable,

Reaffirming that each country has primary responsibility for its own development, and that the role of national policies and development strategies, including in the area of debt management, cannot be overemphasized for the achievement of sustainable development, and recognizing that national efforts, including to achieve development goals and to maintain debt sustainability, should be complemented by supportive global programmes, measures and policies aimed at expanding the development opportunities of developing countries, while taking into account national conditions and ensuring respect for national ownership, strategies and sovereignty,

Reaffirming also that multilateral institutions, including entities within the United Nations system and other relevant organizations, should continue to play an important role, given their respective mandates, in assisting countries in achieving and maintaining debt sustainability,

Reiterating that debt sustainability depends on a confluence of many factors at the international and national levels, and emphasizing that country-specific circumstances and the impact of external shocks, such as those derived from the world financial and economic crisis, should continue to be taken into account in debt sustainability analyses,

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[7] *Report of the Fourth United Nations Conference on the Least Developed Countries, Istanbul, Turkey, 9-13 May 2011* (United Nations publication, Sales No. 11.II.A.1), chaps. I and II.

[8] Resolution 66/288, annex.

[9] The themes of the special event of the Second Committee were as follows: (a) Are there missing links in the international financial architecture for debt restructuring?; (b) Lessons from past debt crises; and (c) Features of a possible debt resolution mechanism.

Expressing deep concern about the ongoing adverse impacts, particularly on development, of the world financial and economic crisis, cognizant that the global economy remains in a challenging phase with significant downside risks, including turbulence in global financial and commodity markets and widespread fiscal strains, which threaten the global economic recovery, stressing the need to continue to address systemic fragilities and imbalances and the need for continuing efforts to reform and strengthen the international financial system, and recognizing that any deepening of ongoing adverse impacts of the world financial and economic crisis threatens debt sustainability in developing countries,

Recognizing the importance of efforts and cooperation undertaken at the national, regional and international levels in response to the challenges posed by the world financial and economic crisis, and acknowledging that the impacts of the crisis on development continue, entail the possibility of undermining the progress made towards achieving the internationally agreed development goals, including the Millennium Development Goals, and threaten debt sustainability in many countries, especially developing countries, through, inter alia, the consequences on the real economy and government revenue and the need to increase borrowing to mitigate the negative impacts of the crisis,

Recognizing also the important role, on a case-by-case basis, of debt relief, including debt cancellation, as appropriate, and debt restructuring, as debt crisis prevention and management tools for mitigating the impact of the world financial and economic crisis on developing countries,

Recognizing further the role of private capital flows in mobilizing financing for development, stressing the challenges posed by excessive short-term capital inflows to many developing countries, including to their debt sustainability, and encouraging further review of the benefits, disadvantages and limitations of macroprudential measures available to mitigate the impact of volatile capital flows, including, as appropriate, temporary, transparent and targeted capital controls or management of capital flows in accordance with the Articles of Agreement of the International Monetary Fund,

Expressing concern that a number of low- and middle-income countries face challenges in servicing their debt,

Expressing deep concern that, in spite of international efforts, many least developed countries struggle with high debt burdens and are classified, in accordance with the framework for debt sustainability assessments, as being in debt distress or at high risk of debt distress,

Noting with appreciation that the Heavily Indebted Poor Countries Initiative, the Multilateral Debt Relief Initiative and bilateral donors have provided substantial debt relief to thirty-four countries that have reached the completion point under the Heavily Indebted Poor Countries Initiative, which has provided needed debt relief and enabled them to reallocate resources to investments in social services, while expressing concern that some post-completion point countries remain classified as being at high risk of debt distress and need to avoid rebuilding unsustainable debt burdens,

Convinced that enhanced market access for goods and services of export interest to developing countries contributes significantly to debt sustainability in those countries,

1. *Takes note* of the report of the Secretary-General;[10]

2. *Emphasizes* the special importance of a timely, effective, comprehensive and durable solution to the debt problems of developing countries to promote their economic growth and development;

3. *Stresses* the importance of responsible lending and borrowing, emphasizes that creditors and debtors must share responsibility for preventing unsustainable debt situations, and encourages Member States, the Bretton Woods institutions, the regional development banks and other relevant multilateral financial institutions and stakeholders to continue the ongoing discussions on this issue, inter alia, within the framework of the initiative of the United Nations Conference on Trade and Development to promote responsible sovereign lending and borrowing;

4. *Recognizes* the role played by the Debt Sustainability Framework for Low-Income Countries, jointly developed by the International Monetary Fund and the World Bank, to guide borrowing and lending decisions, takes note of the recent review of the framework and encourages the continued periodic review of the framework in an open and transparent manner with the full engagement of borrower and creditor Governments;

5. *Reiterates* that no single indicator should be used to make definitive judgements about a country's debt sustainability, and in this regard, while acknowledging the need to use transparent and comparable indicators, invites the International Monetary Fund and the World Bank, in their assessment of debt sustainability, to continue to take into account a country's structural weaknesses and the fundamental changes caused by, inter alia, natural disasters, conflicts and changes in global growth prospects or in the terms of trade, especially for commodity-dependent developing countries, as well as by the impact of developments on financial markets, and to provide information on this issue to Member States, using the appropriate frameworks;

6. *Recognizes* that the long-term sustainability of debt depends on, inter alia, economic growth, mobilization of domestic and international resources, export prospects of debtor countries, responsible debt management, sound macroeconomic policies, transparent and effective regulatory frameworks and success in overcoming structural development problems, and hence on the creation of an enabling international environment that is conducive to development;

7. *Also recognizes* the enormity and the multidimensional nature of the world financial and economic crisis, which caused a sharp deterioration of the debt ratios in several developing countries, stresses the need to continue to assist developing countries in avoiding a build-up of unsustainable debt so as to reduce the risk of relapsing into another debt crisis, takes note in this regard of the additional resources made available during and since the crisis through the International Monetary Fund and the multilateral development banks, and calls for the continued provision of concessional and grant-based financing to low-income countries to enable them to respond to the consequences of the crisis;

8. *Further recognizes* the roles of the United Nations and the international financial institutions in accordance with their respective mandates, and encourages them to continue to support global efforts towards sustained, inclusive and equitable

[10] A/67/174.

growth, sustainable development and the external debt sustainability of developing countries, including through continued monitoring of global financial flows and their implications in this regard;

9. *Emphasizes* the need for coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, recalls, in this regard, the improvement of the lending framework of the International Monetary Fund through, inter alia, streamlined conditions and the creation of more flexible instruments, such as a precautionary and liquidity line, while noting that new and ongoing programmes should not contain unwarranted procyclical conditionalities, and urges the multilateral development banks to continue to move forward on flexible, concessional, fast disbursing and front-loaded assistance that will substantially and quickly assist developing countries facing financing gaps in their efforts to achieve the Millennium Development Goals, taking into consideration the individual absorptive capacities and debt sustainability of those countries;

10. *Notes* the provision by the International Monetary Fund of interest relief to low-income countries in the form of zero-interest payments on financing from concessional lending facilities until the end of 2012, and invites the Fund to consider extending its concessional loan facilities for low-income countries for the post-2012 period;

11. *Also notes* that countries can seek to negotiate, as a last resort, on a case-by-case basis and through existing frameworks, agreements on temporary debt standstills between debtors and creditors in order to help mitigate the adverse impacts of the crisis and stabilize macroeconomic developments;

12. *Further notes* the progress made under the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative, while expressing concern that some countries have yet to reach decision or completion points, calls for the full and timely implementation of those Initiatives and for continued support to the remaining eligible countries in completing the Heavily Indebted Poor Countries Initiative process, and encourages all parties, both creditors and debtors, to fulfil their commitments as rapidly as possible in order to complete the debt relief process;

13. *Welcomes and encourages* the efforts of the heavily indebted poor countries, calls upon them to continue to strengthen their domestic policies to promote economic growth and poverty eradication through, inter alia, the maintenance of a domestic environment that is conducive to private-sector development, a stable macroeconomic framework and transparent and accountable systems of public finance, and invites the international financing institutions and the donor community to continue to provide adequate and sufficiently concessional financing;

14. *Encourages* the international financial institutions to review the implementation and the impact of debt relief initiatives to better understand why some countries still face persisting debt problems after completion of the Heavily Indebted Poor Countries Initiative, and calls for creditors and debtors to work together, inter alia, through the design of responses to address them;

15. *Underlines* the fact that heavily indebted poor countries eligible for debt relief will not be able to enjoy its full benefits unless all creditors, both public and private, contribute their fair share and become involved in the international debt

resolution mechanisms to ensure the debt sustainability of those countries, and invites creditors, both private and public, that are not yet fully participating in debt relief initiatives to substantially increase their participation, including through providing comparable treatment to the extent possible to debtor countries that have concluded sustainable debt relief agreements with creditors;

16. *Stresses* that debt relief can play a key role in liberating resources that should be directed towards activities consistent with poverty eradication, sustained economic growth, economic development and the internationally agreed development goals, including the Millennium Development Goals, and in this regard urges countries to direct the resources freed through debt relief, in particular through debt cancellation and reduction, towards achieving those objectives, including in the context of the post-2015 development agenda, according to their national priorities and strategies;

17. *Encourages* donor countries to take steps to ensure that resources provided for debt relief under the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative do not detract from official development assistance resources intended to be available for developing countries;

18. *Notes with concern* that some low- and middle-income developing countries that are not part of the existing debt relief initiatives may have large debt burdens that may create constraints on mobilizing the resources needed to achieve the internationally agreed development goals, including the Millennium Development Goals, indicating a need to consider debt relief initiatives for those countries, as appropriate, and encourages the consideration of medium- and long-term sustainability as well as new approaches to deal with bilateral and private non-Paris Club debt;

19. *Encourages* the Paris Club, in dealing with the debt of low- and middle-income debtor countries that are not part of the Heavily Indebted Poor Countries Initiative, to take into account their medium-term debt sustainability in addition to their financing gaps, and notes with appreciation the Evian approach of the Paris Club in providing different terms of debt relief in order to respond to the specific needs of debtor countries while preserving debt cancellation for heavily indebted poor countries;

20. *Stresses* the need for the international community to remain vigilant in monitoring the debt situation of the least developed countries and to continue to take effective measures, preferably within existing frameworks, when applicable, to address the debt problem of those countries, including through the cancellation of the multilateral and bilateral debt owed by least developed countries to creditors, both public and private;

21. *Welcomes* the efforts of, and calls upon, the international community to continue to provide flexibility, and stresses the need to sustain those efforts in helping post-conflict developing countries, especially those that are heavily indebted and poor, to achieve initial reconstruction for economic and social development;

22. *Also welcomes* the efforts of, and invites, creditors to provide flexibility to developing countries affected by natural disasters so as to allow them to address their debt concerns, while taking into account their specific situations and needs;

23. *Calls for* the consideration of additional measures and initiatives aimed at ensuring long-term debt sustainability through increased grant-based and other forms of concessional financing, the cancellation of 100 per cent of the eligible official multilateral and bilateral debt of heavily indebted poor countries and, where appropriate and on a case-by-case basis, significant debt relief or restructuring for developing countries with an unsustainable debt burden that are not part of the Heavily Indebted Poor Countries Initiative;

24. *Invites* donor countries, taking into account country-specific debt sustainability analyses, to continue their efforts to increase bilateral grants to developing countries, which could contribute to debt sustainability in the medium to long term, and recognizes the need for countries to be able to promote employment and productive investment and to invest in, inter alia, health and education while maintaining debt sustainability;

25. *Calls for* the intensification of efforts to prevent and mitigate the prevalence and cost of debt crises by enhancing international financial mechanisms for crisis prevention and resolution, encourages the private sector to cooperate in this regard, and invites creditors and debtors to further explore, where appropriate and on a mutually agreed, transparent and case-by-case basis, the use of new and improved debt instruments and innovative mechanisms such as debt swaps, including debt for equity in Millennium Development Goal projects, as well as debt indexation instruments;

26. *Also calls for* the consideration of enhanced approaches to sovereign debt restructuring and debt resolution mechanisms, based on existing frameworks and principles, with the broad participation of creditors and debtors, the comparable treatment of all creditors and an important role for the Bretton Woods institutions and other relevant organizations within the United Nations system, and in this regard calls upon all countries to promote and contribute to the discussions, within the United Nations and other appropriate forums, on the need for and feasibility of a more structured framework for international cooperation in this area;

27. *Encourages* all relevant entities within the United Nations system to continue the study and examination of the need for and feasibility of a sovereign debt restructuring and debt resolution mechanism, with the participation of all relevant stakeholders;

28. *Invites* the Economic and Social Council to hold a one-day meeting in 2013, in conjunction with its special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development, to consider lessons learned from debt crises and the ongoing work on sovereign debt restructuring and debt resolution mechanisms, with the participation of all relevant stakeholders, and also invites the President of the Economic and Social Council to prepare a summary of the meeting;

29. *Notes* the changing composition of the sovereign debt of some countries, which has shifted increasingly from official to commercial borrowing and from external to domestic public debt, although for most low-income countries external finance is still largely official, also notes that the levels of domestic debt and the significantly increased number of creditors, both official and private, could create other challenges for macroeconomic management and public debt sustainability, and

stresses the need to address the implications of these changes, including through improved data collection and analysis;

30. *Recognizes* concerns about vulture fund litigation and that some debtor countries may experience difficulties in obtaining comparable treatment from non-Paris Club creditors, as required by the standard clause included in Paris Club agreements, and encourages the continued provision by the relevant institutions of mechanisms and legal assistance to debtor countries to solve litigation issues;

31. *Stresses* the need to increase information-sharing, transparency and the use of objective criteria in the construction and evaluation of debt scenarios, including an assessment of domestic public and private debt, in order to ensure the achievement of development goals, recognizes that credit-rating agencies play a significant role in the provision of information, including the assessment of corporate and sovereign risks, reiterates in this regard the invitation addressed to the President of the General Assembly to convene a thematic debate on the role of credit-rating agencies in the international financial system, and requests the Secretary-General to continue to report on this issue when preparing his report on the implementation of the present resolution;

32. *Invites* the international community to continue efforts to increase support, including financial and technical assistance, for institutional capacity-building in developing countries to enhance sustainable debt management as an integral part of national development strategies, including by promoting transparent and accountable debt management systems and negotiation and renegotiation capacities and through supporting legal advice in relation to tackling external debt litigation and debt data reconciliation between creditors and debtors so that debt sustainability may be achieved and maintained;

33. *Invites* the United Nations Conference on Trade and Development, the International Monetary Fund and the World Bank, in cooperation with the regional commissions, regional development banks and other relevant multilateral financial institutions and stakeholders, to continue and intensify cooperation in respect of capacity-building activities in developing countries in the area of debt management and debt sustainability;

34. *Encourages* further improvement of the mutual exchange of information, on a voluntary basis, on borrowing and lending among all creditors and borrowers;

35. *Acknowledges* that timely and comprehensive data on the level and composition of debt are a condition necessary for, inter alia, building early warning systems aimed at limiting the impact of debt crises, calls for debtor and creditor countries to intensify their efforts to collect data, and calls for donors to consider increasing their support for technical cooperation programmes aimed at increasing the statistical capacity of developing countries in that regard;

36. *Calls upon* all Member States and the United Nations system, and invites the Bretton Woods institutions and the private sector, to take appropriate measures and actions for the implementation of the commitments, agreements and decisions of the major United Nations conferences and summits, in particular those related to the question of the external debt sustainability of developing countries;

37. *Requests* the Secretary-General to submit to the General Assembly at its sixty-eighth session a report on the implementation of the present resolution and to

include in the report a comprehensive and substantive analysis of the external debt situation of developing countries, as well as the summary of the one-day meeting organized by the Economic and Social Council as an annex;

38. *Decides* to include in the provisional agenda of its sixty-eighth session, under the item entitled "Macroeconomic policy questions", the sub-item entitled "External debt sustainability and development".